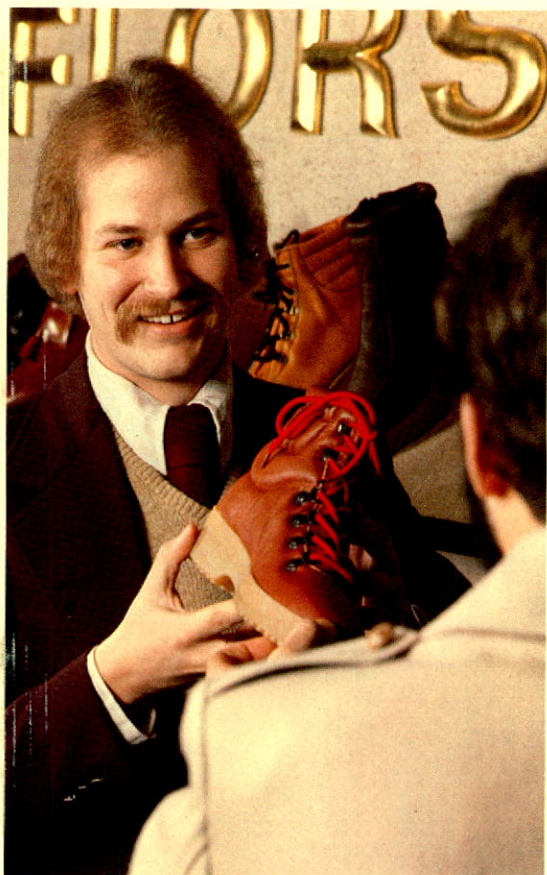


1980 Annual Report



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INTERCO 69th Annual Report

INTERCO TODAY

INTERCO is a broadly based major manufacturer and retailer of consumer products and services represented by four operating groups:

Apparel Manufacturing Group consists of 11 apparel companies operating 62 manufacturing plants and 13 major customer distribution centers across the country. The group designs, manufactures and distributes a full range of branded and private-label sportswear, casual apparel, outer garments and headwear for men and women. Distribution is national in scope to department stores, specialty shops and other retail units. Substantial distribution, under private label, is also made to large national retail and discount chains.

General Retail Merchandising Group operates 856 retail locations in 29 states in this country, offering to the consumer a large assortment of popular-priced products and services. General retailing includes junior department stores, discount stores, men's and women's specialty apparel shops, specialty department stores and large do-it-yourself home-improvement centers. Ten modern regional distribution centers support these retail locations in different regions of the country.

Footwear Manufacturing and Retailing Group operates 874 retail shoe stores and leased shoe departments in 43 states in this country, as well as in Australia, Canada and Mexico. The group also styles, manufactures and distributes, primarily, men's footwear in most major price ranges in the United States, Canada and Australia. There are 22 shoe manufacturing plants and four major distribution centers in operation.

Furniture and Home Furnishings Group manufactures and distributes quality furniture and home furnishings under the name of *Ethan Allen*, *Kling* and *Restocrat*. The principal corporate objective is to render a professional decorating service to the consumer. There are 24 factories and ten distribution centers and consolidated warehouses located throughout the United States.

The Annual Meeting of Stockholders will be held at 10 a.m., Monday, June 23, 1980, at the Marriott Pavilion Hotel, One Broadway, St. Louis, Missouri. Notice of the meeting and a proxy statement will be sent to stockholders in a separate mailing.

Contents	Page
Highlights	1
Chairman's Letter	2
Ethan Allen joins INTERCO	4
Apparel Manufacturing Group	8
General Retail Merchandising Group	14
Footwear Manufacturing and Retailing Group	18
Fiscal 1980 in Review	22
Consolidated Financial Section	27
Independent Accountants' Report ...	43
Five-Year Consolidated Review	44
Management's Discussion and Analysis of Operations	45
Directors	46
Officers and Members of the Operating Board	48

Highlights

Fiscal Years Ended	February 29 1980	February 28 1979	Change
From operations:			
Net sales	\$2,024,307,000	\$1,851,458,000	+ 9.3%
Earnings before income taxes	205,735,000	186,869,000	+ 10.1%
Net earnings	106,706,000	92,576,000	+ 15.3%
As a percent of sales	5.3%	5.0%	
Per share of common stock:			
Earnings	\$7.35	\$6.37	+ 15.4%
Dividends	\$2.35	\$2.10	+ 11.9%
Financial condition at year end:			
Working capital	\$ 606,833,000	\$ 537,878,000	+ 12.8%
Current ratio	3.5 to 1	3.7 to 1	
Total assets	1,239,036,000	1,003,075,000	+ 23.5%
Stockholders' equity	836,313,000	684,164,000	+ 22.2%
Book value per common share	\$52.21	\$47.56	+ 9.8%
Return on stockholders' average investment	14.6%	14.2%	
Shares outstanding at year end:			
Common	14,156,019	14,386,479	
Preferred	972,376	—	
Number of stockholders	16,000	16,000	
Number of employees	50,000	43,000	

As we enter the 1980's INTERCO again established record sales, net earnings, and earnings per share for the sixteenth consecutive year. In addition, our financial condition grew even stronger and we are well positioned for the opportunities of the next decade.

Several significant milestones were achieved during fiscal 1980:

- For the first time sales exceeded \$2 billion and net earnings exceeded \$100 million.
- We added a fourth business group — Furniture and Home Furnishings — in January 1980.
- Our margin of profitability — net earnings to net sales — was a record 5.3%.
- Our return on stockholders' average investment grew to 14.6%.

The excellent performance in fiscal 1980 resulted in sales of \$2.02 billion, an increase of 9.3%, net earnings of \$106.7 million, an increase of 15.3%, and earnings per common share of \$7.35, an increase of 15.4%.

We are pleased with the operating results for fiscal 1980 as each of our business groups — Apparel Manufacturing — General Retail Merchandising — Footwear Manufacturing and Retailing — contributed to the improvement and each group had record sales and earnings.

The record results are further evidence of the value of diversification, dedication to management disciplines, and our ability to implement cost control programs and stringent inventory controls.

The management structure and the operating philosophy of your company continues to provide the challenges to each of our operating companies and at corporate headquarters. As we enter the 70th year of doing business, you will find on the following pages, photographs of some of the people who are contributing to the outstanding performance of INTERCO. These include your Board of Directors, corporate officers and the men who lead our operating companies.

Cash dividends on the company's common stock were increased in March 1980 by 10%, to a current annual rate of \$2.64 per share. The company has paid cash dividends on its common stock for sixty-nine years without interruption and has increased cash dividends for the past fifteen consecutive years. Your Board of Directors will continue to make frequent reviews of the dividend rate in relation to the expected growth of the company.

Our program of expansion and growth continued during fiscal 1980 with the addition of *Ethan Allen Inc.* This outstanding company will be the foundation for our fourth business group — Furniture and Home Furnishings — and will expand INTERCO into a new market offering future growth opportunities. This successful program of diversification and expansion through profitable acquisitions will continue to be an important part of our planned growth.

Nathan S. Ancell, Chairman of the Board of *Ethan Allen Inc.* was elected a Vice President and a Director of INTERCO on February 11, 1980 and he will continue, along with the other management executives at *Ethan Allen*, to be responsible for the operations of this business.

Also, on July 1, 1979, Robert T. Hensley, Jr. was elected Treasurer of your company and brings to INTERCO an outstanding background of experience in the financial end of our business.

As we enter our new fiscal year we are concerned about the effects of climbing inflation, consumer attitudes, severe cost pressures on our business and most importantly, the challenges facing the U.S. economy. We all agree that the present economic situation requires sharp changes if we are going to break the back of the current inflation cycle.

Under these conditions, corporations must be ready for this challenge. About 45 days ago we completed our detailed business plan for fiscal 1981 and on the positive side we have:

- Proven management at each operating company with a good track record;
- Management dedicated to the philosophy of your company and its management disciplines;
- A very strong financial condition; and
- The ability to implement cost control programs and to carry out profit improvement programs.

These positive strengths offer great opportunities for the long-term future of your company which we view with confidence.

As a result of the present economic trends we will continue to budget our business on a more conservative basis. During this period we will need a day-by-day awareness of our business — to be sure our profits, forecasts and cost structures are in line with our planned levels of activity. In addition, we must make sure our assets are soundly employed and we must intensify our aggressive cost control programs.

Therefore, at this time we feel fiscal 1981 could be a difficult year for U.S. business, however, if history means anything, in times such as these INTERCO has been able to perform fairly well and we are hopeful that fiscal 1981 will be the seventeenth year of consecutive growth.

I wish to thank our loyal and conscientious employees for their efforts during the past year. We also wish to thank our customers for making it all possible and our stockholders for their continued support and confidence.

W. L. Edwards, Jr.

Chairman of the Board and
Chief Executive Officer

April 11, 1980

William L. Edwards, Jr.





Ethan Allen Inc., headquartered in Danbury, Connecticut, became a part of INTERCO on January 28, 1980.

Ethan Allen was founded in 1932 as a home furnishing jobber and soon after acquired its first manufacturing plant. Over the years, through acquisitions and building programs, the company created a large manufacturing operation which now includes 24 factories, five consolidation warehouses and five regional distribution centers.

Soon after its founding, the company designed a small open-stock collection of bedroom furniture as the initial basis for developing a home furnishing service business dedicated to helping consumers decorate their homes. This unique concept expanded and became an integrated and correlated collection of furniture, lamps, accessories, floor coverings, textiles, draperies and other product categories required to render a complete decorating service.

In the early 1960's, the company designed a beautiful Georgian style building to present the *Ethan Allen* collection. These showcase galleries have expanded to over 300 locations in the United States and several foreign countries.

The *Ethan Allen* brand has become the best known and most highly respected home furnishings brand in the country. No other home furnishings manufacturer is as thoroughly marketing-oriented as *Ethan Allen*. And none has developed a vertically integrated manufacturing and marketing system which also provides a consumer-oriented decorating service.

Essentially *Ethan Allen* markets a service, not a product. The home planning and decorating service is dedicated to showing consumers how *Ethan Allen* products can be used to meet their needs for a well-decorated home. The company relies on the fact that if consumers appreciate and value this needed service, they will wish to utilize *Ethan Allen* products in their home decorating plans.

One of the most difficult and frustrating jobs facing anyone is the creation of a beautiful home environment. It is a major investment, and few people are trained or qualified to decorate their homes. They must correlate furniture, floor coverings, lamps, accessories, draperies, textiles, wall coverings and other home furnishings. *Ethan Allen* galleries coordinate all these products to make it relatively simple for a homeowner to decorate expertly and with lasting satisfaction. This is a total *Ethan Allen* objective.

Ethan Allen Inc. has started a chain of contemporary galleries which will parallel the consumer service of the American Traditional Galleries. The company also has established a prototype *Ethan Allen Inn* incorporating the company architectural motif and utilizing *Ethan Allen* furnishings. This "home away from home" is a warm, hospitable Early American Inn and will be expanded to other locations.

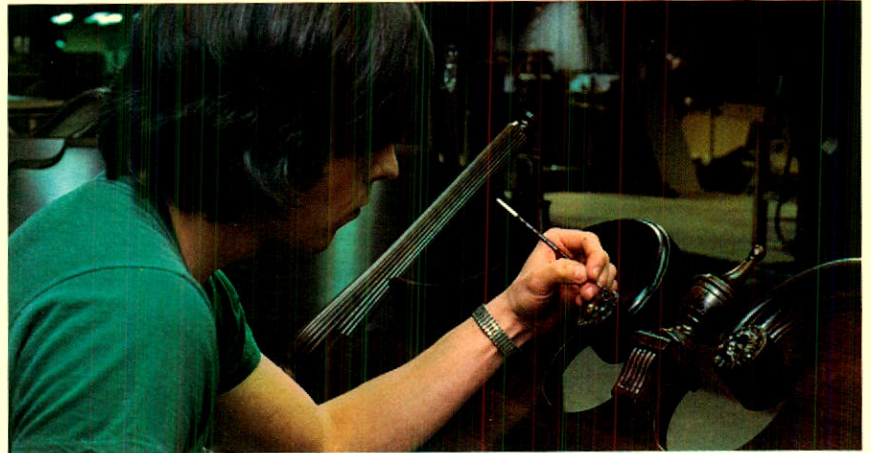
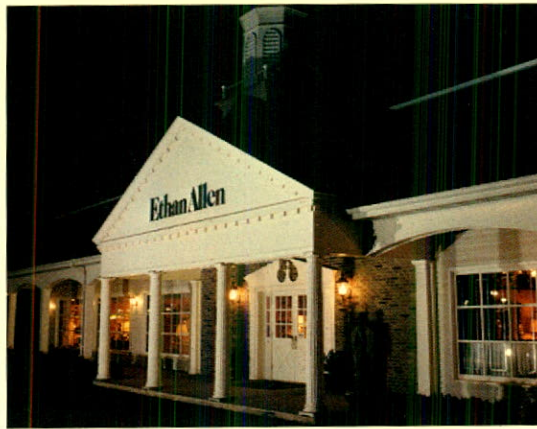
Ethan Allen forms the core of a new product group at INTERCO — Furniture and Home Furnishings. It is believed that the new product group will give INTERCO new market opportunities in which to expand in the years ahead.

**Major Furniture
and Home
Furnishings
Brands:**

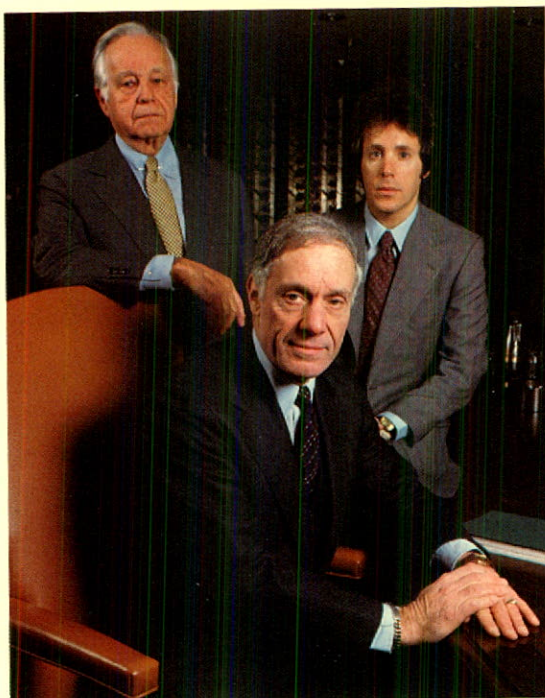
*Ethan Allen
Kling
Restocrat*

**Major Retail
Trading Names:**

*Carriage House
Georgetown
Manor
Manor House
Georgetown*







1

1. From left: Jean S. Goodson, President, International Hat Company; Charles J. Rothschild, Jr., President, Campus Sweater and Sportswear Company; Jonathan P. Myers, Chairman, Londontown Corporation.

2. From left: Lionel Baxter, President, Big Yank Corporation; Edwin J. Baum, President, The Biltwell Company, Inc.; William B. Cowden, Chairman, Cowden Manufacturing Company.

2



3

3. From left: Theodore A. Fell, President, Sidney Gould Co., Ltd.; Arthur Sibley, President, College-Town; Harvey Rothenberg, Chairman, Stuffed Shirt/Stuffed Jeans, Inc.

4. From left: Stanley Matzkin, President, Devon Apparel; Harvey Saligman, President, Queen Casuals, Inc.

4



INTERCO's Apparel Manufacturing Group achieved record results in both sales and operating earnings during fiscal 1980. The group contributed \$818.4 million or 40.4% of the consolidated sales, and \$105.9 million or 49.1% of the operating earnings of the company, a return on sales before income taxes, corporate expenses and interest cost of 12.9%. Sales increased 11.9% and operating earnings improved 10.8%.

The record results were achieved during a period of inflationary conditions which saw the major customers of the Apparel Manufacturing Group — department stores, specialty shops and retail chains — controlling the level of their inventories and becoming more selective in their buying. These conditions had been anticipated and, through stringent inventory and cost control procedures, we improved upon last year's record results.

Fiscal 1980 was another year of growth for our coordinated sportswear, outerwear, rainwear and basic sportswear lines. It also was a year of recovery for our jeans' manufacturing operations, which suffered from a leveling-off in demand for basic denim jeans in fiscal 1979. Through the introduction of new styles and more aggressive marketing in fiscal 1980, denim jean sales registered significant gains in the domestic market, as well as in exports to Europe.

INTERCO is a producer of a full range of popular-priced casual apparel and sportswear.

- Our principal products for men and young men include sport, knit and dress shirts, sweaters, sport coats, blazers, suits, outerwear, rainwear, headwear, jeans, slacks, swimwear and walk shorts.
- Our principal products for women are suits, dresses, pants, skirts, jackets, sweaters, blouses, shirts, T-shirts, vests, blazers, jeans, headwear, rainwear and outerwear.

During the year, we opened three factories, and closed two less efficient plants, in addition to expanding existing distribution centers.

Projections for next year include the opening of three new plants and the relocation and enlargement of three distribution centers, thus continuing our program of modernization of facilities.

The development of products to serve new and expanded markets continues to be a goal of the company and include:

- Introduction of *Petite Concept* by *Devon*, designed for the petite woman, represents entry into a new segment of the marketplace. Response by our customers indicates that the acceptance by the consumer will be favorable.
- *Outdoors Unlimited* by *London Fog*, a collection of men's and women's outerwear and rainwear, was added to our product line. This line is designed to appeal to the 25-35 year old market and combines youthful, active styling with the quality and durability long associated with the *London Fog* name. The line has been well received by retailers who view *Outdoors Unlimited* as separate and distinct from the more traditional lines of *London Fog* rainwear and outerwear.
- *Le Tigre*, a new group of sportswear, has been added to the *Campus* line of men's wear. This merchandise is identified with a tiger logo and designed to be marketed in a moderate price range.

We are entering a period of uncertain economy in which the demands of the consumer will be highly selective. Our apparel manufacturing business is prepared to meet the challenge through continuing emphasis on quality products, affordable prices and fashion merchandising.



**Major Apparel
Brands for
Women and
Young Women:**

*Clipper Mist
College-Town
Devon
Fog
Gateway Casuals
It's Pure Gould
Janus
Lady Devon
Lady Queen
London Fog
Maincoats
Outdoors Unlimited
Pant-her
Petite Concept
Queen Casuals
REJOICE!
Stuffed Jeans
Stuffed Shirt
Travelaire*



**Major Apparel
Brands for Men
and Young Men:**

Big Yank
Biltwell
Campus
Clipper Mist
Concept II by
Campus
Cowden
Donegal
Easy Life by
Campus
Esprit by Campus
Gateway Casuals
John Alexander
Leonard Macy
Le Tigre
London Fog
Mr. Golf
Mr. Tennis
Maincoats
Outdoors Unlimited
Pro-action by
Campus
Rugged Country by
Campus
Startown
Studio One by
Campus
Tailor's Bench
Tour de France
Travelaire







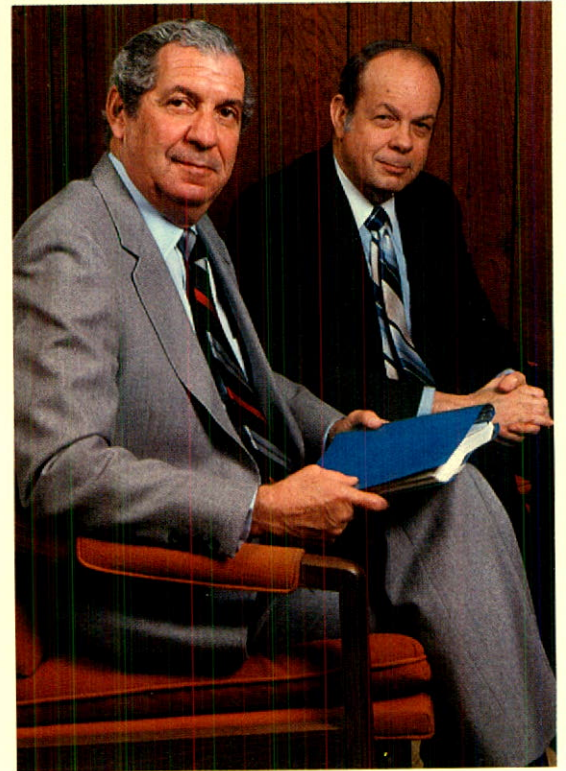
1

1. From left: William B. Klinsky, President, Alberts, Inc.; Myron C. Peterson, Chairman and President, Sky City Stores, Inc.; Barry S. Fine, President, Fine's Men's Shops, Incorporated and Standard Sportswear.

2. From left: Gerald B. Hirsch, President, P. N. Hirsch & Company; Edward S. Golde, President, Golde's Department Stores, Inc.

3. From left: John Weil, President, Eagle Family Discount Stores, Inc.; Stanley M. Cohen, President, Central Hardware Company.

2



3



The General Retail Merchandising Group achieved record sales and operating earnings during fiscal 1980, a difficult period for the retailing industry. Although affected in varying degrees, the nine companies making up INTERCO's General Retail Merchandising Group successfully coped with inflation, cautious consumer attitudes and severe pressures on profit margins in posting record results.

Sales were \$630.3 million or 31.2% of the consolidated sales and operating earnings were \$41.2 million or 19.1% of the consolidated operating earnings of INTERCO, a return on sales before income taxes, corporate expenses and interest cost, of 6.5%. The sales increase amounted to 8.2% and the operating earnings gain was 1.4%.

During the period there were 58 new stores added and 23 stores closed leaving a total at year end of 856 general retail group store locations.

The plan for fiscal 1981 includes the addition of 50 new stores and the expansion of existing distribution facilities. Each year, the company continues to relocate or close stores which are in declining markets and which are marginally profitable.

The General Retail Merchandising Group includes the following retail companies:

- *Central Hardware* had a strong year in fiscal 1980, setting new records in both sales and earnings. With 25 large home-improvement centers, the company continues to increase its participation in the market serving the do-it-yourself homeowner, a market which is rapidly expanding due to continuing high inflation and the energy crisis. During the current year *Central Hardware* will open two new stores and replace three older stores with new and larger facilities.
- *Eagle Family Discount Stores* and *Sky City Stores* operate a total of 280 convenience discount stores located throughout the South and Southeast, a rapidly growing section of the country. The marketing strategy of INTERCO's two convenience discount chains is to emphasize expansion into smaller communities where our stores will be a prominent retailer offering a full range of consumer products at popular prices. Our

objective in this inflationary climate will be to continue to offer low prices on private-labeled and branded merchandise, while controlling operating expenses through a strict cost control program.

- *Fine's, Standard and United*, a chain of 80 specialty apparel shops, offers a complete line of men's fashion and accessories. Shops are located principally in modern enclosed malls reflecting the shopping preference of today's consumer. The continuing trend in men's fashion is toward sportswear and a more relaxed style of dressing, particularly jeans and sport shirts, and it is a strength of our company that we have been successful in offering merchandise reflecting this trend at prices attractive to our customers.
- *Alberts* operates a chain of 79 women's specialty apparel shops under the name of *Alberts* and *Albert K*, featuring nationally advertised merchandise for the contemporary woman, and *Alcove*, featuring boutiques for the trendier younger woman. Women are today expressing a strong preference for basic clothing that will not instantly outdate their wardrobe. The "preppy" look, emphasizing traditional styles and colors, is in great demand and has added an element of excitement which has been missing for several years in women's fashion.
- *P. N. Hirsch & Company*, a chain of 384 junior department stores located throughout the midwestern, southern and western portions of the country, made a strong contribution to earnings of the General Retail Merchandising Group in fiscal 1980. This year marks the 50th anniversary of the company, which was founded with a policy of bringing quality merchandise to the customer at the lowest possible price.
- *Golde's* operates eight specialty department stores with two additional store openings planned this year. The emphasis is on "Life Style Merchandising" which reflects the needs and desires of today's consumer.

The basic strategy of INTERCO's General Retail Merchandising Group continues to be the merchandising of quality products at popular prices.

**Major Retail
Trading Names:**

Alberts
Albert K
Alcove
Central Hardware
Carithers
Eagle Family
Discount Stores
Fine's
Golde's
Hirsch Value Center
Idaho Department
Store
Jeans Galore
Keith O'Brien
Kent's
Miller's
P. N. Hirsch
Shainberg's
Sky City Discount
Center
Standard
Sportswear
Thornton's
United Shirt
Wigwam





From left: Jack Spewak, President, Senack Shoes, Inc.; J. Carl Powers, President, International Shoe Company.



During fiscal 1980, the Footwear Manufacturing and Retailing Group turned in a record performance, principally as a result of a strong contribution made by *The Florsheim Shoe Company*.

The footwear group contributed \$554.9 million or 27.4% of the consolidated sales and \$65.4 million or 30.4% of the operating earnings of INTERCO. This was a return on sales of 11.8% before income taxes, corporate expenses and interest cost. The sales increase amounted to 3.2% and the operating earnings gain was 6.4% over one year ago. The modest increase in sales was achieved after disposing of the Canadian footwear manufacturing operations in mid-fiscal 1979 and early in fiscal 1980.

Footwear Manufacturing

The manufacturing segment of the footwear group, while affected to some degree by the reluctance of shoe retailers to replenish stocks, had a good year on balance. The company has a long-standing reputation for producing quality footwear principally for men, but also including footwear for women and children. A full range of styles are produced — dress, casual and industrial safety footwear and boots.

Fiscal 1980 was a period of challenge for footwear manufacturing. The effects of the rapidly rising cost of materials, competition from imports and an uncertain economic atmosphere required numerous revaluations of production and marketing plans. During the period, we capitalized on our ability to supply retailers with timely deliveries, generally not available from foreign sources, which helped us to maintain our position as a leader in footwear manufacturing.

- *Florsheim* expanded its line of easier-living footwear styles, many featuring softer and more supple leather upper materials and all-weather rubber bottoms. This product development direction reflects recognition of and adaptation to changes in consumer life-style.

The year was marked by the establishment of an extensive computer-supported product development, manufacturing and inventory coordination system which will play a key role in enabling the company to

maintain its strong competitive position in quality footwear.

- *International Shoe* continues strong in the men's branded fashion and industrial footwear fields. In the latter, the company's *Hy-Test* Safety Shoe Division has a well established position of product and sales leadership.

Innovations in the manufacture of *Hy-Test* safety shoes include "Nature Toe," a new natural-shaped steel toe which provides more comfort as well as greater resistance to impact and compression. In addition, the development of the "Inside" metatarsal guard safety shoe for heavy industry, and the fiberglass safety toe to meet security needs for the nuclear energy industry, put *Hy-Test* in an excellent position for the future.

Footwear Retailing

Footwear retailing enjoyed another record year of growth in sales and earnings in fiscal 1980. At year end there were 874 shoe stores and leased shoe departments, up from 844 the previous year.

- *Florsheim* opened 46 new locations which included *Florsheim Shoe Shops* for men, *Florsheim Thayer McNeil Shops* for women and men and leased shoe departments, while closing 16 marginally profitable units. Approximately the same number of openings are planned for the coming year, including additional shops in Canada, Mexico and Australia. Emphasis will be on prestigious and high-volume shopping centers and select downtown locations.
- *Senack Shoes, Inc.*, an operator of leased shoe departments and stores, had record sales and earnings in fiscal 1980.

As we enter our new year there are many challenges, however, we will continue our program of updating and modernizing our facilities, expanding into new and existing markets and increasing the emphasis on the highest quality footwear and services.

**Major Retail
Trading Names:**

Florsheim Shoe
Shops
Florsheim Thayer
McNeil
Duane's
Miller Taylor
Phelp's
Thompson, Boland
& Lee

**Major Footwear
Brands:**

For Men:

Ambassador
City Club
Florsheim
Florsheim Imperial
Royal Imperial by
Florsheim
Idlers by Florsheim
Weeds from
Florsheim
Grizzlies
Hy-Test
Julius Marlow
Patriot
Rand
Roberts
Winthrop
Worthmore

For Women:

Crawdads
diVina
Florsheim
Miss Wonderful
Patriot
Personality
Thayer McNeil
Vitality







1

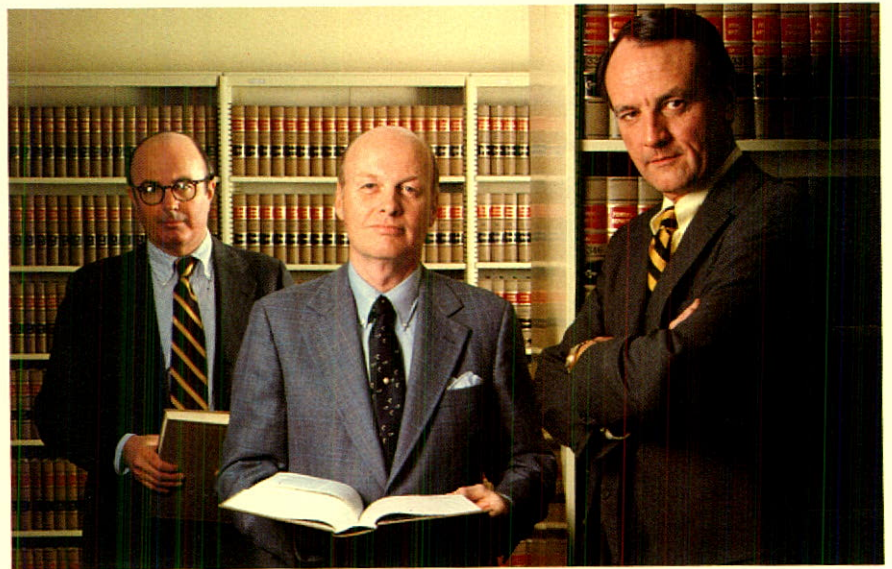
2

Administrative Officers of INTERCO

1. From left: John K. Riedy, President and Chief Operating Officer; William L. Edwards, Jr., Chairman of the Board and Chief Executive Officer.

2. From left: Robert T. Hensley, Jr., Treasurer; Ronald L. Aylward, Vice President and General Counsel; Duane A. Patterson, Secretary.

3. From left: Russell L. Baumann, Assistant Controller; Stanley F. Huck, Controller; William R. Withrow, Assistant Treasurer — Manager of Taxes; Wilfred G. Morice, Assistant Controller — Manager of Internal Audit.



3



Fiscal 1980 was the sixteenth consecutive year of record sales and earnings for INTERCO and was the first year in which sales exceeded \$2 billion and earnings topped \$100 million.

During the fourth quarter — on January 28, 1980 — we completed the acquisition of *Ethan Allen Inc.* This company is the beginning of a fourth business group at INTERCO — Furniture and Home Furnishings. The sales and earnings of *Ethan Allen* are included in the consolidated statement of earnings for the month of February, 1980 only. The consolidated balance sheet at February 29, 1980 includes *Ethan Allen*, but because the acquisition was accounted for as a purchase, the consolidated balance sheet has not been restated at February 28, 1979.

Our operating groups' sales and earnings for a five-year period are presented below, in thousands of dollars. These figures have been restated to include pooled companies, for years prior to their acquisition, and the retroactive restatement of capital leases.

	Fiscal Years Ended				
	1980	1979	1978	1977	1976
Net sales:					
Apparel	\$ 818,380	\$ 731,259	\$ 640,487	\$ 576,019	\$ 484,152
General Retail ..	630,309	582,441	521,178	498,557	474,230
Footwear	554,955	537,758	504,992	491,856	465,870
Furniture	20,663	—	—	—	—
Total	<u>\$2,024,307</u>	<u>\$1,851,458</u>	<u>\$1,666,657</u>	<u>\$1,566,432</u>	<u>\$1,424,252</u>
Earnings before income taxes:					
Apparel	\$ 105,873	\$ 95,585	\$ 86,745	\$ 78,050	\$ 63,715
General Retail ..	41,149	40,581	38,096	32,473	35,219
Footwear	65,435	61,520	44,552	48,768	43,884
Furniture	3,101	—	—	—	—
	<u>215,558</u>	<u>197,686</u>	<u>169,393</u>	<u>159,291</u>	<u>142,818</u>
Less corporate expenses and interest cost	(9,823)	(10,817)	(7,814)	(9,899)	(7,033)
Total	<u>205,735</u>	<u>186,869</u>	<u>161,579</u>	<u>149,392</u>	<u>135,785</u>
Income taxes	<u>99,029</u>	<u>94,293</u>	<u>79,745</u>	<u>73,122</u>	<u>67,212</u>
Net earnings	<u>\$ 106,706</u>	<u>\$ 92,576</u>	<u>\$ 81,834</u>	<u>\$ 76,270</u>	<u>\$ 68,573</u>
As a percent of sales	<u>5.3%</u>	<u>5.0%</u>	<u>4.9%</u>	<u>4.9%</u>	<u>4.8%</u>

Note: The Furniture Group consists of *Ethan Allen* only, and for its last two fiscal years ended September 29, 1979 and September 30, 1978, reported sales of \$226.7 and \$201.1 million and net earnings of \$17.1 and \$13.7 million, respectively. The earnings represented a return on sales of 7.5% and 6.8% for the respective periods.

Sales

Net sales for the fiscal year were a record \$2.02 billion, an increase of \$172.8 million, or 9.3% over \$1.85 billion for the prior year.

The sales contribution by each operating group of the company is compared in millions of dollars as follows:

	Fiscal 1980		Fiscal 1979		% Change
	Sales	%	Sales	%	
Apparel	\$ 818.4	40.4	\$ 731.3	39.5	+11.9
General Retail	630.3	31.2	582.4	31.5	+ 8.2
Footwear	554.9	27.4	537.8	29.0	+ 3.2
Furniture	20.7	1.0	—	—	—
	<u>\$2,024.3</u>	<u>100.0</u>	<u>\$1,851.5</u>	<u>100.0</u>	<u>+ 9.3</u>

Each of the operating groups had record sales in fiscal 1980 as well as in fiscal 1979.

The Footwear Group, which includes both manufacturing and retailing, disposed

of the remaining Canadian women's shoe manufacturing operations during the fiscal year. As a result, only a modest sales increase was achieved, as compared to the Apparel and General Retail Groups.

The net sales of the company, by quarter, in millions of dollars were:

	Fiscal 1980	Fiscal 1979
First quarter	\$ 463.8	\$ 412.7
Second quarter	532.1	486.0
Third quarter	519.2	502.2
Fourth quarter	509.2	450.6
	<u>\$2,024.3</u>	<u>\$1,851.5</u>

Earnings

Earnings before income taxes of \$205.7 million, increased by \$18.8 million, or 10.1%, from \$186.9 million last year.

Record operating earnings were established by each operating group and are compared, in millions of dollars, as follows:

	Fiscal 1980		Fiscal 1979		
	Amount	%	Amount	%	% Change
Apparel	\$105.9	49.1	\$ 95.6	48.4	+10.8
General Retail	41.2	19.1	40.6	20.5	+ 1.4
Footwear	65.4	30.4	61.5	31.1	+ 6.4
Furniture	3.1	1.4	—	—	—
	<u>\$215.6</u>	<u>100.0</u>	<u>\$197.7</u>	<u>100.0</u>	<u>+ 9.0</u>

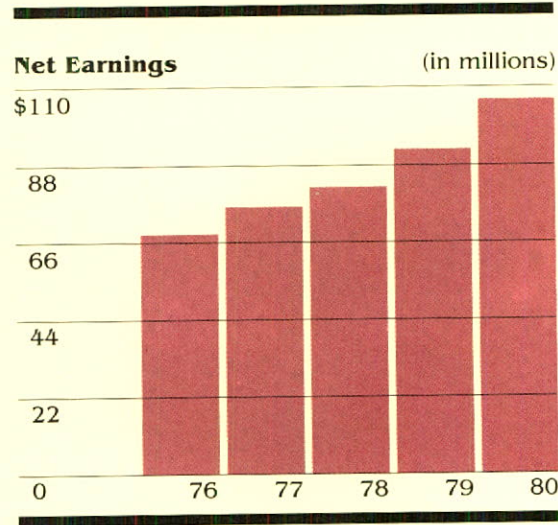
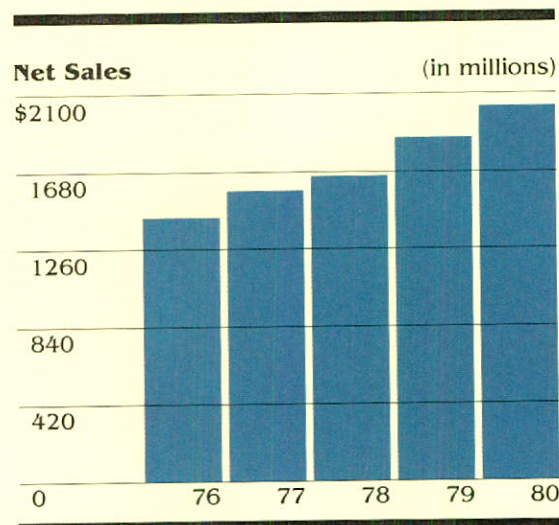
Our margin of profitability continued at a high level in fiscal 1980, and as a result, the operating earnings of the Apparel Group was 12.9%, the General Retail Group was 6.5%, the Footwear Group was 11.8%, and the Furniture Group was 15.0% of sales.

Net earnings were a record \$106.7 million, an increase of \$14.1 million or 15.3% over the net earnings of \$92.6 million last year.

Earnings per common share rose to \$7.35 from \$6.37 in fiscal 1979. This represents an increase of \$.98 per share or 15.4%.

Net earnings and earnings per common share for each quarter are compared in the following:

	Net Earnings (In millions)		Earnings Per Share	
	Fiscal 1980	Fiscal 1979	Fiscal 1980	Fiscal 1979
First quarter	\$ 19.8	\$17.4	\$1.37	\$1.20
Second quarter	25.3	21.5	1.76	1.47
Third quarter	28.3	26.1	1.98	1.80
Fourth quarter	33.3	27.6	2.24	1.90
	<u>\$106.7</u>	<u>\$92.6</u>	<u>\$7.35</u>	<u>\$6.37</u>



Dividends

Dividends paid on common stock in fiscal 1980 were \$33.6 million. The quarterly cash dividends paid per share were as follows:

	<u>Fiscal 1980</u>	<u>Fiscal 1979</u>
First quarter	\$0.55	\$0.50
Second quarter	0.60	0.50
Third quarter	0.60	0.55
Fourth quarter	0.60	0.55
	<u>\$2.35</u>	<u>\$2.10</u>

The quarterly dividend rate on common stock was increased to \$.66 per common share, or an annual indicated rate of \$2.64 per common share, effective with the April 15, 1980 payment.

The first quarterly dividend payment on the Series D preferred stock was made on April 15, 1980. The annual dividend rate on the Series D preferred stock is \$7.75.

Capital Stock

At February 29, 1980, there were 14,156,019 shares of common stock and 972,376 shares of preferred stock outstanding.

In December 1978, the Board authorized the repurchase of up to 500,000 shares of the company's common stock. Through February 29, 1980, we had purchased 394,726 shares on the open market or by private transaction at a cost of \$15.3 million.

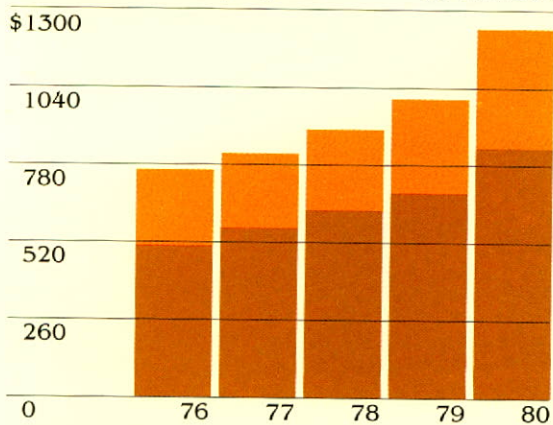
Subsequent to February 29, 1980 the company completed the repurchase of the previously authorized 500,000 shares and on April 14, 1980, the Board authorized the repurchase of an additional 500,000 shares of the company's common stock.

The common and preferred shares of INTERCO are traded on the New York Stock Exchange. The preferred stock commenced trading in January, 1980 and, through fiscal year end, the high and low quoted prices were \$92.00 and \$88.50, respectively. Fluctuations in the high and low quoted prices of common stock, for each quarter, are shown in the following:

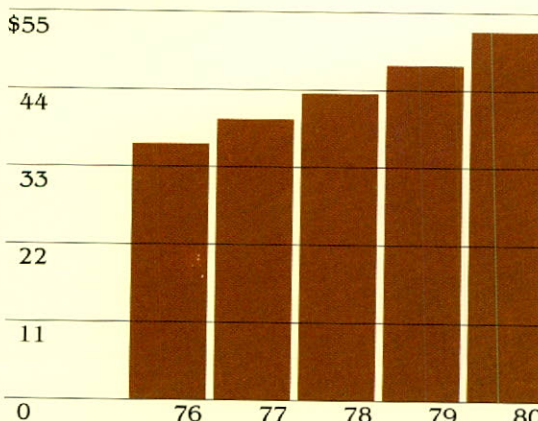
	<u>Fiscal 1980</u>		<u>Fiscal 1979</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First quarter	\39\frac{1}{4}$	\$36	\$45 $\frac{1}{2}$	\$38
Second quarter	42$\frac{3}{4}$	37$\frac{3}{4}$	44 $\frac{3}{8}$	41 $\frac{7}{8}$
Third quarter	42$\frac{3}{4}$	37	44 $\frac{1}{4}$	34 $\frac{3}{4}$
Fourth quarter	40$\frac{1}{8}$	36$\frac{1}{2}$	39 $\frac{1}{2}$	34

The closing market price of INTERCO's common and preferred stock on February 29, 1980 was \$38.00 and \$88.50 per share, respectively.

Total Assets
Stockholders' Equity (in millions)



Book Value
Per Common Share



Financial Position

- The company's strong financial position continued during the 1980 fiscal year.
- Cash and marketable security investments — short and long-term — were \$97.3 million at year end, after providing for capital expenditures, dividends, common stock repurchases and the acquisition of *Ethan Allen Inc.*
 - Working capital, which is the excess of current assets over current liabilities, was a record high \$606.8 million on February 29, 1980 — an increase of \$68.9 million over last year. The working capital ratio was 3.5 to 1 at the end of fiscal 1980.
 - Accounts receivable were \$243.7 million at February 29, 1980. On a comparative basis, excluding *Ethan Allen's* accounts receivable acquired in the acquisition, the increase was 2.5%.
 - Inventories were \$529.1 million at February 29, 1980, higher by 20.3% from fiscal 1979. On a comparative basis, excluding *Ethan Allen's* inventories acquired in the merger, the increase was 4.8%, reflecting the effect of our inventory control program despite inflation and the addition of new retail locations.
 - Long-term debt, including capitalized leases of \$80.7 million, less current maturities, was \$140.9 million at February 29, 1980, which is 16.9% of the stockholders' equity of the company.
 - Stockholders' equity was \$836.3 million at February 29, 1980 compared to \$684.2 million last year. The return of average stockholders' investment was 14.6% for fiscal 1980. Book value per common share increased to \$52.21 from \$47.56 one year ago.

Capital Expenditures

Capital expenditures for fiscal 1980 were \$46.6 million, which included \$4.8 million of capital leases. These expenditures were for new retail stores, new manufacturing plants, the refurbishment of a number of our retail locations, the modernization of manufacturing plants and equipment, and the expansion of existing distribution facilities. Depreciation expense for the year was \$24.4 million.

For fiscal 1981, capital expenditures for company-owned property are forecast to be \$55.0 million and will include approximately 100 general retail, furniture and footwear stores and departments, as well as expansion of customer distribution centers. Depreciation for fiscal 1981 will be approximately \$30.6 million.

Acquisition

On January 28, 1980, the company acquired all the outstanding stock of *Ethan Allen, Inc.* for \$151.4 million. Its operations have been included in INTERCO's reporting in fiscal 1980, from the date of acquisition.

For a description of *Ethan Allen's* business, refer to page five of this report. Additional information concerning the purchase price and results of operations are included in Note 2 in Notes to Consolidated Financial Statements.

Operating Board

The following were appointed to the Operating Board of the company during the year:

- Nathan S. Ancell, Chairman of the Board of *Ethan Allen Inc.*
- Edwin J. Baum, President of *The Biltwell Company, Inc.*
- Theodore A. Fell, President of *Sidney Gould Co., Ltd.*

Trademarks and Tradenames

The trademarks and tradenames of INTERCO and its subsidiaries, appearing in this Annual Report, are italicized.

Charts

The charts, in the Fiscal 1980 in Review, have been restated to include companies acquired on a pooling of interests basis for years prior to their affiliation and the retroactive restatement of capital leases.

Form 10-K — Annual Report

A copy of INTERCO INCORPORATED's current 10-K Report filed with the Securities and Exchange Commission can be obtained by writing to: Treasurer, INTERCO INCORPORATED, Ten Broadway, St. Louis, Missouri 63102.

INTERCO Consolidated Financial Statements

Contents	Page
Consolidated Balance Sheet	28
Consolidated Statement of Earnings	30
Consolidated Statement of Changes in Financial Position	31
Consolidated Statement of Stockholders' Equity	32
Notes to Consolidated Financial Statements	33
Independent Accountants' Report ...	43

Consolidated Balance Sheet

(Dollars in thousands)

	February 29 1980	February 28 1979
ASSETS		
Current assets:		
Cash	\$ 6,561	\$ 7,116
Marketable securities	53,011	61,046
Receivables, less allowances of \$13,836 (\$10,436 in 1979)	243,743	216,546
Inventories	529,058	439,959
Prepaid expenses and other current assets	20,817	9,880
Total current assets	853,190	734,547
Marketable investment securities	37,707	37,509
Property, plant and equipment:		
Land	19,192	9,546
Buildings and improvements	280,246	205,139
Machinery and equipment	175,424	143,564
	474,862	358,249
Less accumulated depreciation	165,226	150,608
Net property, plant and equipment	309,636	207,641
Other assets	38,503	23,378
	<u>\$1,239,036</u>	<u>\$1,003,075</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	February 29 1980	February 28 1979
Current liabilities:		
Current maturities of long-term debt	\$ 6,335	\$ 4,024
Current maturities of capital lease obligations	5,501	3,602
Accounts payable and accrued expenses	194,779	157,244
Income taxes	<u>39,742</u>	<u>31,799</u>
Total current liabilities	246,357	196,669
Long-term debt, less current maturities	60,225	41,236
Obligations under capital leases, less current maturities	80,718	68,146
Other long-term liabilities	15,423	12,860
Stockholders' equity:		
Preferred stock, no par value, authorized 10,000,000 shares — issued, 972,376 shares in 1980	97,238	—
Common stock, \$7.50 stated value, authorized 50,000,000 shares — issued, 14,550,745 shares in 1980 and 14,538,779 shares in 1979	109,131	109,041
Capital surplus	47,441	55,709
Retained earnings	<u>597,764</u>	<u>525,201</u>
	851,574	689,951
Less 394,726 (152,300 in 1979) shares of common stock in treasury, at cost	<u>15,261</u>	<u>5,787</u>
Total stockholders' equity	<u>836,313</u>	<u>684,164</u>
	<u>\$1,239,036</u>	<u>\$1,003,075</u>

Consolidated Statement of Earnings

(Dollars in thousands except per share data)

Years Ended	February 29 1980	February 28 1979
Income:		
Net sales	\$2,024,307	\$1,851,458
Other income, net	23,960	19,503
	<u>2,048,267</u>	<u>1,870,961</u>
Costs and expenses:		
Cost of sales	1,379,768	1,266,618
Selling, general and administrative expenses	453,448	407,904
Interest expense	9,316	9,570
	<u>1,842,532</u>	<u>1,684,092</u>
Earnings before income taxes	205,735	186,869
Income taxes	99,029	94,293
Net earnings	<u>\$ 106,706</u>	<u>\$ 92,576</u>
Earnings per share	<u>\$7.35</u>	<u>\$6.37</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

(Dollars in thousands)

Years Ended	February 29 1980	February 28 1979
Working capital provided by:		
Net earnings	\$106,706	\$ 92,576
Items not affecting working capital:		
Depreciation	24,390	21,850
Other, net	1,973	1,014
Operations	133,069	115,440
Disposal of property, plant and equipment	4,873	3,677
Issuance of preferred stock	88,762	—
Issuance of common stock	298	6,288
Reduction of marketable investment securities	7,846	4,153
Additions to long-term debt	320	2,970
Additions to capital lease obligations	4,759	16,427
Other, net	1,751	181
	<u>241,678</u>	<u>149,136</u>
Working capital used for:		
Cash dividends	33,563	30,425
Additions to property, plant and equipment:		
Company owned property	41,849	30,173
Leased property	4,759	16,427
Marketable investment securities	7,677	39,938
Reduction of long-term debt	9,227	4,625
Reduction of capital lease obligations	5,402	7,379
Purchase of common treasury shares	9,474	5,787
Net non-current assets of companies acquired	—	5,978
Additional payment — purchased companies	—	2,887
	<u>111,951</u>	<u>143,619</u>
Acquisition of Ethan Allen, Inc. (excluding working capital of \$90,664):		
Properties	84,650	—
Long-term debt and capital lease obligations	(41,112)	—
Estimated cost in excess of net assets acquired	13,098	—
Other net non-current assets	4,136	—
Net non-current assets	<u>60,772</u>	<u>—</u>
	<u>172,723</u>	<u>143,619</u>
Increase in working capital	<u>\$ 68,955</u>	<u>\$ 5,517</u>
Working capital increased (decreased) by:		
Cash and marketable securities	\$ (8,590)	\$ (45,632)
Receivables	27,197	21,452
Inventories	89,099	60,136
Prepaid expenses and other current assets	10,937	1,296
Foreign bank borrowings	—	7,998
Current maturities of long-term debt	(2,311)	(38)
Current maturities of capital lease obligations	(1,899)	(525)
Accounts payable and accrued expenses	(37,535)	(31,859)
Income taxes	(7,943)	(7,311)
	<u>\$ 68,955</u>	<u>\$ 5,517</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(Dollars in thousands except per share data)

	Preferred Stock	Common Stock		Capital Surplus	Retained Earnings	Total
		Issued	In Treasury			
Balance February 28, 1978 ...	\$ —	\$107,559	\$ —	\$50,903	\$463,050	\$621,512
Net earnings					92,576	92,576
Cash dividends:						
Common stock —						
\$2.10 per share					(30,425)	(30,425)
Issuance of 166,635 common shares for acquisition		1,250		4,304		5,554
Exercise of stock options:						
Common —						
30,790 shares		231		496		727
Restricted stock plan:						
Common —						
199 shares		1		6		7
Purchase 152,300 common treasury shares			(5,787)			(5,787)
Balance February 28, 1979 ...	—	109,041	(5,787)	55,709	525,201	684,164
Net earnings					106,706	106,706
Cash dividends:						
Common stock —						
\$2.35 per share					(33,563)	(33,563)
Issuance of 934,249 preferred shares for acquisition	93,425			(8,097)		85,328
Issuance of 38,127 preferred shares for conversion of debentures	3,813			(379)		3,434
Exercise of stock options:						
Common —						
10,294 shares		77		159		236
Restricted stock plan:						
Common —						
1,672 shares		13		49		62
Purchase of 242,426 common treasury shares			(9,474)			(9,474)
Investment valuation allowance					(580)	(580)
Balance February 29, 1980 ...	<u>\$97,238</u>	<u>\$109,131</u>	<u>\$(15,261)</u>	<u>\$47,441</u>	<u>\$597,764</u>	<u>\$836,313</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)

February 29, 1980 and February 28, 1979

1. Significant Accounting Policies — The company and its subsidiaries employ generally accepted accounting principles on a consistent basis to present fairly their consolidated financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Principles of Consolidation — The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries, the majority of which are wholly owned. All material intercompany transactions have been eliminated in consolidation.

Fiscal Year — The company's fiscal year ends on the last day of February. In this report, all reference to fiscal 1980 refers to the fiscal year ended February 29, 1980, and fiscal 1979 refers to the fiscal year ended February 28, 1979.

Marketable Securities — Marketable securities, consisting principally of commercial paper, are stated at cost which approximates market.

Inventories — Inventories are stated at the lower of cost (first-in, first-out) or market, except for most footwear manufacturing inventories which are priced on the "last-in, first-out" method of inventory valuation.

Marketable Investment Securities — Marketable investment securities consist of bonds and preferred stocks held for long-term investment. Dividend and interest income are accrued as earned. The cost of marketable investment securities sold is determined on the specific identification method.

Marketable equity securities (preferred stocks) are carried at the lower of cost or market. A valuation allowance, representing the excess of cost over market of these equity securities, is included in stockholders' equity. Other marketable investment securities (bonds) are carried at cost as there is no indication of a permanent impairment in value in any portion of the portfolio and there is no present intention to liquidate the securities portfolio at less than cost.

Property, Plant and Equipment — Property, plant and equipment is stated at cost. Facilities and equipment leased under capital leases are included in property, plant and equipment with the corresponding principal payments carried in obligations under capital leases. Expenditures for improvements are capitalized. Normal repairs and maintenance are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are reflected in operations.

Depreciation — For financial reporting purposes, the company employs both accelerated and straight-line methods of computing depreciation. Amortization of assets recorded under capital leases is included in depreciation expense. Approximately 86% and 85% of depreciation expense was computed on the straight-line method in fiscal 1980 and fiscal 1979, respectively.

Excess of Investment Over Equity in Subsidiaries — Cost in excess of net assets of companies acquired is being amortized on a straight-line basis, generally over 40 years.

Start-Up Expenses — Start-up expenses of new facilities are charged to operations in the year incurred.

Pension Plans — The company's policy with respect to pension plans is to fund pension costs accrued, and to amortize prior service costs, generally over 30 years.

Income Taxes — Investment tax credits are reflected as a reduction of Federal income taxes in the period in which qualified property is placed in service. It is the company's intent that the undistributed earnings of subsidiaries will either be reinvested in the subsidiaries or distributed tax-free to the parent company. Accordingly, no provision has been made for income taxes on such undistributed earnings.

Notes to Consolidated Financial Statements

(continued)

2. Business Combinations — On January 28, 1980, the company acquired all the outstanding stock of Ethan Allen, Inc., a manufacturer and retailer of household furniture of American Traditional design and related home furnishings. The acquisition price of \$151,436, including capitalized expenses, was paid by the issuance of 934,249 shares of new INTERCO INCORPORATED Series D \$7.75 cumulative convertible preferred stock with an assumed fair market value of \$91.50 per share on the date the agreements were announced, and the remainder in cash. The transaction has been accounted for as a purchase; and, accordingly, Ethan Allen operations have been included in the consolidated statements from the date of acquisition. The total acquisition cost exceeded the fair value of the net assets acquired by approximately \$13,098 and the excess has been allocated to trademarks and goodwill, both of which are being amortized over 40 years. This allocation is based on a preliminary review of Ethan Allen's assets acquired and liabilities assumed, and may be adjusted upon completion of a more detailed review and evaluation; however, any adjustment is anticipated to be immaterial in nature.

The following unaudited summary, prepared on a pro forma basis, combines the consolidated results of operations of the company for fiscal years 1980 and 1979 with those of Ethan Allen, Inc. for its fiscal years ended September 29, 1979 and September 30, 1978:

	<u>1980</u>	<u>1979</u>
Net sales	\$2,230,328	\$2,052,580
Net earnings	\$ 118,671	\$ 101,799
Earnings per share	\$7.17	\$6.08

The pro forma data have been adjusted to reflect interest expense and the depreciation and amortization of the fair value of the acquired assets, trademarks and goodwill.

In fiscal 1979, the company acquired all the outstanding stock of International Hat Company in exchange for 166,635 shares of common stock. Additional shares may be issued in 1981 based upon the profit performance of the acquired company. Also in fiscal 1979, the company acquired substantially all of the net assets of Alberts, Inc. for \$18,347 in cash. Both transactions were accounted for as purchases and the results of operations were included from the respective dates of acquisition.

3. Inventories — Inventories are summarized as follows:

	<u>1980</u>	<u>1979</u>
Retail merchandise	\$262,376	\$218,130
Finished products	124,182	104,658
Work in process	43,342	35,194
Raw materials	99,158	81,977
	<u>\$529,058</u>	<u>\$439,959</u>

All the major categories of inventory, except retail merchandise, include certain items priced on the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at approximately \$562,348 and \$469,290 at February 29, 1980 and February 28, 1979, respectively.

4. Marketable Investment Securities — Marketable investment securities consist of the following:

	<u>1980</u>	<u>1979</u>
Equity securities, at cost	\$ 3,506	\$ 3,506
Less valuation allowance	580	—
Equity securities, at market	2,926	3,506
Bonds, at cost	34,781	34,003
	<u>\$37,707</u>	<u>\$37,509</u>

Marketable investment securities earned \$213 and \$125 in dividend income and \$2,722 and \$2,212 in interest income in fiscal years 1980 and 1979, respectively.

The portfolio of equity securities includes gross unrealized losses of \$580 at February 29, 1980. Net realized losses on the sale of securities, after applicable taxes, included in the determination of net earnings for fiscal 1980 amounted to \$90. There were no realized gains or losses during fiscal 1979. The valuation allowance included in stockholders' equity increased \$580 in fiscal 1980 as compared to no change in fiscal 1979.

5. Lines of Credit — The company had no short-term funds borrowed at the end of fiscal 1980 or fiscal 1979. Average short-term borrowings outstanding during fiscal 1980 and fiscal 1979 were \$4,900 and \$14,100 with a weighted average interest rate thereon of 16.1% and 11.4%, respectively. Maximum short-term borrowings at any month end were \$23,400 in fiscal 1980 and \$46,000 in fiscal 1979.

On February 29, 1980, the company entered into a commitment agreement enabling it to borrow up to \$100,000 in domestic or Euro-Dollar loans through February 28, 1983. Borrowings outstanding as of February 28, 1983 are repayable from that date through February 29, 1988. Domestic interest rates will approximate bank prime while rates for Euro-Dollar borrowings will approximate the London Interbank Offering Rate plus 0.5%. The agreement requires the company to pay a maximum commitment fee of 0.5% per annum and a facility fee equal to 4% of the prime rate on the daily average unfunded portion of the commitment. There were no borrowings outstanding under this agreement at February 29, 1980.

The company maintains other bank lines of credit which provide future credit availability and support the sale of commercial paper. On February 29, 1980, the total unused lines of credit were \$68,000.

6. Long-Term Debt — Long-term debt consists of the following:

	<u>1980</u>	<u>1979</u>
4½% promissory installment notes, payable \$1,875 annually, 1980-1989, and balance in 1990	\$31,250	\$33,125
8½% promissory installment note, payable \$1,000 annually, 1980-1993, and balance in 1994	19,000	—
5¼% convertible subordinated debentures due January 1, 1996	360	—
4⅞% convertible subordinated debentures due January 1, 1998	4,691	—
Foreign mortgages payable with interest rates of 10¾%, due through 1985	2,970	2,970
Other debt at 1% to 9½% interest rates, payable in varying amounts through 2006	12,396	9,165
	70,667	45,260
Less current maturities	6,335	4,024
Less present value adjustment	4,107	—
	<u>\$60,225</u>	<u>\$41,236</u>

In the merger with Ethan Allen, Inc. on January 28, 1980, the company assumed the long-term debt of the acquired company which consisted of \$1,761 due within one year and \$32,153 due thereafter through 2006. In accounting for the merger as a purchase, this debt was adjusted to reflect fair value. Assumed debt with interest rates ranging from 4½% to 8¾% was adjusted to reflect a rate of 11½%. The present value of the convertible debentures is based on an 8½% interest rate. The present value adjustment will be reflected as interest expense in future years based upon the maturity of each instrument.

Notes to Consolidated Financial Statements

(continued)

Maturities of long-term debt are \$6,335, \$3,927, \$3,888, \$4,711 and \$3,332 for fiscal years 1981 through 1985, respectively.

The 5¼% and 4⅞% convertible subordinated debentures are convertible into the company's Series D preferred stock prior to maturity at \$62.00 and \$105.50 per share, respectively, subject to anti-dilution provisions. They are subordinated as to principal and interest to all senior indebtedness, are redeemable at the company's option prior to maturity at prices ranging from 103.375% to 100% of principal amount, and are subject to annual sinking fund payments beginning in 1982 and 1984, respectively.

The 4½% note agreement restricts, among other things, retained earnings of \$43,810 as to payment of cash dividends on capital stock and the purchase, redemption or retirement of capital stock.

7. Obligations Under Capital Leases — The amount capitalized under capital leases is the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Generally, interest rates applicable to capital leases range between 4¾% and 16¾% for leased facilities and between 7¾% and 19½% for leased equipment. Obligations under capital leases amounted to \$86,219 and \$71,748 at February 29, 1980 and February 28, 1979, respectively. Maturities of these obligations are \$5,501, \$5,326, \$5,100, \$5,074 and \$4,602 for fiscal years 1981 through 1985, respectively.

8. Preferred Stock — The company's preferred stock is issuable in series. Prior to June 25, 1979, authorized preferred stock consisted of 577,060 shares of First Preferred and 1,000,000 shares of Second Preferred, both without par value.

On June 25, 1979, the Certificate of Incorporation was amended to change the designation of the First Preferred Stock to Preferred Stock, to increase the authorized shares thereof from 577,060 shares to 10,000,000 shares, and to delete from the Certificate of Incorporation the provisions authorizing and providing for the Second Preferred Stock. As a result of the amendments, authorized preferred stock consists of 10,000,000 shares, without par value.

At February 29, 1980, the outstanding preferred stock consisted of 972,376 shares of Series D \$7.75 cumulative convertible with stated and involuntary liquidating value of \$100.00 per share. There were no preferred shares outstanding at February 28, 1979.

Each share of the Series D preferred stock is convertible into 2.1621 shares of the company's common stock beginning on January 28, 1981. The Series D preferred stock may be redeemed on and after January 29, 1989, at \$104.75 per share and decreasing to \$100 per share in 1994. Subject to the satisfaction of certain conditions relating to the amounts of dividends paid on the company's common stock, the Series D preferred stock may be redeemed on and after January 29, 1986, at \$107.75 per share and decreasing to \$100 per share in 1994.

Shares of Series D preferred stock were reserved for the following purposes at February 29, 1980:

	<u>Number of Shares</u>
Conversion of convertible, subordinated debentures:	
5¼% debenture	5,806
4⅞% debenture	44,464
Stock options	3,600
	<u>53,870</u>

The stock options were granted under the 1969 Ethan Allen, Inc. qualified stock option plan assumed by the company in the merger, and are fully exercisable at February 29, 1980 at \$27.26 per share.

9. Common Stock — Shares of common stock were reserved for the following purposes at February 29, 1980:

	<u>Number of Shares</u>
Common stock options:	
Granted	371,821
Available for grant	39,118
Restricted stock plan of pooled company	3,267
Contingent shares based on profit performance	160,000
Conversion of preferred stock	2,218,846
	<u>2,793,052</u>

Under the company's stock option plans, certain key employees may be granted qualified or non-qualified options to purchase shares of common stock. Qualified options granted under the plans may not be less than 100% of the fair market value of the common stock on the date an option is granted, and non-qualified options at not less than 85%. All options which have been granted, qualified and non-qualified, were at 100% of fair market value on the date of grant, and are exercisable on varying or staggered dates not less than one year after the date of grant. Qualified options expire five years after the date of grant or on May 20, 1981, whichever first occurs, and non-qualified options expire ten years after the date of grant.

Changes in options granted are summarized as follows:

	<u>1980</u>		<u>1979</u>	
	<u>Shares</u>	<u>Average Price</u>	<u>Shares</u>	<u>Average Price</u>
Beginning of year	394,283	\$33.94	144,439	\$28.90
Options granted	6,050	40.61	287,574	35.09
Options exercised	(10,294)	21.92	(30,790)	20.98
Options cancelled	(18,218)	35.73	(6,940)	34.42
End of year	<u>371,821</u>	<u>34.29</u>	<u>394,283</u>	<u>33.94</u>
Exercisable at end of year	<u>75,869</u>		<u>61,992</u>	

10. Income Taxes — Income tax expense is composed of the following:

	<u>1980</u>	<u>1979</u>
Current:		
Federal	\$ 87,621	\$82,823
State and city	11,341	9,087
Foreign	2,815	2,757
	<u>101,777</u>	94,667
Deferred	(2,748)	(374)
	<u>\$ 99,029</u>	<u>\$94,293</u>
Investment and jobs tax credits	<u>\$ 2,025</u>	<u>\$ 1,266</u>

Notes to Consolidated Financial Statements

(continued)

The following table reconciles the differences between the company's effective income tax rate and the Federal corporate statutory rate:

	<u>1980</u>	<u>1979</u>
Federal corporate statutory rate	46.0%	47.7%
State and local income taxes, net of Federal tax benefit	2.9	2.6
Investment tax credits	(1.0)	(.7)
Foreign taxes, including foreign currency translation effects2	.4
Other	—	.5
Effective income tax rate	<u>48.1%</u>	<u>50.5%</u>

Certain items are recognized for income tax purposes in years other than those in which they are reported in the consolidated financial statements. Future Federal income tax benefits at February 29, 1980 and February 28, 1979 are included in the accompanying consolidated balance sheet, as follows:

	<u>1980</u>	<u>1979</u>
Prepaid expenses and other current assets	\$9,296	\$4,207
Other assets	—	2,388
Other long-term liabilities	(838)	—
	<u>\$8,458</u>	<u>\$6,595</u>

The Federal income tax returns of the company and its major subsidiaries for the two taxable years 1977 and 1978 are currently in the process of examination. Management is of the opinion that the results of these examinations will have no material effect on the company's consolidated financial position or results of operations.

11. Pension Plans — The company and its subsidiaries have pension plans covering substantially all employees. Total pension expense was \$15,100 and \$14,300 in fiscal 1980 and fiscal 1979, respectively. As of the most recent valuation dates, the actuarially computed value of vested benefits under defined benefit pension plans exceeded assets of the plans by approximately \$62,000, and the unfunded past service cost under the pension plans of the company and its subsidiaries aggregated approximately \$83,000.

12. Lease Commitments — Substantially all of the company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2003. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Assets recorded under capital leases are as follows:

	<u>1980</u>	<u>1979</u>
Land	\$ 1,070	\$ 653
Buildings	85,809	73,760
Machinery and equipment	11,392	7,799
	<u>98,271</u>	<u>82,212</u>
Accumulated depreciation	23,470	20,603
	<u>\$74,801</u>	<u>\$61,609</u>

Future minimum lease payments under capital leases at February 29, 1980, aggregate \$167,345, of which \$86,219 is included in obligations under capital leases and current maturities, \$66,412 represents interest and the balance represents other costs of the leases including taxes, insurance and maintenance. Annual payments under capital leases are \$13,985, \$13,320, \$12,495, \$11,926 and \$11,037 for fiscal years 1981 through 1985, respectively.

The minimum rental commitments under capital leases have been reduced by rentals from subleases. These subleases, expiring at various dates to 1999, provide for aggregate minimum rentals of approximately \$2,831.

Lease costs under operating leases and contingent costs of capital leases are considered rental expense. Total rental expense was as follows:

	<u>1980</u>	<u>1979</u>
Basic rentals under operating leases	<u>\$31,144</u>	\$27,964
Contingent rentals	<u>22,042</u>	20,701
	<u>53,186</u>	48,665
Less sublease rentals	<u>1,377</u>	1,273
	<u>\$51,809</u>	<u>\$47,392</u>

Included in rental expense above is the cost of services provided by lessors of leased retail departments, estimated to aggregate \$8,800 and \$8,000 in fiscal 1980 and fiscal 1979, respectively.

Future minimum lease payments under operating leases at February 29, 1980, aggregate \$212,849. Annual payments under operating leases are \$29,002, \$26,192, \$24,073, \$21,623 and \$19,008 for fiscal years 1981 through 1985, respectively.

The minimum rental commitments under operating leases have been reduced by rentals from subleases. These subleases, expiring at various dates to 1993, provide for aggregate minimum rentals of approximately \$3,588.

The company has also guaranteed leases of certain retail outlets of customers which at February 29, 1980, aggregated approximately \$3,300 based on minimum rentals.

- 13. Litigation** — The company is a defendant and may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations.

The Federal Trade Commission has completed its investigation into the marketing and distribution methods of certain of the company's apparel and footwear manufacturing operations and has accepted a Consent Agreement containing a Consent Order to Cease and Desist. Various State Attorneys General are currently investigating the same footwear marketing and distribution methods for possible violations of their respective state's antitrust laws. Although the company has no indication as to what action, if any, these states may take at the conclusion of their investigations, management is of the opinion that the ultimate liability, if any, resulting from any action will not have a material adverse effect upon its consolidated financial position or results of operations.

- 14. Earnings Per Share of Common Stock** — Fully diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the years, plus those common shares which would have been issued if conversion of all preferred stock and all the debentures had taken place at the beginning of each year or since date of issuance. Stock options, the exercise of which would result in dilution of earnings per share, are considered common stock equivalents. Net earnings for this computation are increased by the net interest expense on the convertible debentures.

Notes to Consolidated Financial Statements

(continued)

Primary earnings per share are based on those shares included in the fully diluted earnings per share calculations; except for fiscal 1979 and prior fiscal years, the conversion of preferred stock has not been assumed, and for this computation, net earnings are reduced by preferred stock dividend requirements. In fiscal 1980, the conversion of the issued preferred stock has been assumed in accordance with the Accounting Principles Board's Opinion 15, and the common stock equivalents have been included in the average shares and per share computations since date of issuance. The conversion of the preferred shares reserved for future issuance has not been assumed.

In fiscal 1980 and fiscal 1979 fully diluted earnings per share do not differ from primary earnings per share.

15. Business Segment Information — The company's four business segments are Apparel Manufacturing, General Retail Merchandising, Footwear Manufacturing and Retailing, and Furniture & Home Furnishings. Specific information relating to the operating companies and their products which comprise each segment is included on the inside front cover and on pages 4 through 21 of the Annual Report. All classifications except identifiable assets at year end include the Furniture segment for the month of February 1980 only.

Summarized financial information by business segments is as follows:

	1980	1979
Sales to unaffiliated customers:		
Apparel	\$ 818,380	\$ 731,259
Retail	630,309	582,441
Footwear	554,955	537,758
Furniture	20,663	—
Total	<u>\$2,024,307</u>	<u>\$1,851,458</u>
Operating profit:		
Apparel	\$ 105,873	\$ 95,585
Retail	41,149	40,581
Footwear	65,435	61,520
Furniture	3,101	—
	<u>215,558</u>	<u>197,686</u>
Corporate expenses and interest cost	<u>(9,823)</u>	<u>(10,817)</u>
Earnings before income taxes	<u>\$ 205,735</u>	<u>\$ 186,869</u>
Identifiable assets at year end:		
Apparel	\$ 368,437	\$ 357,003
Retail	311,159	286,528
Footwear	272,415	268,187
Furniture	204,707	—
	<u>1,156,718</u>	<u>911,718</u>
Corporate assets	<u>82,318</u>	<u>91,357</u>
Total	<u>\$1,239,036</u>	<u>\$1,003,075</u>
Depreciation expense:		
Apparel	\$ 6,942	\$ 6,494
Retail	9,675	8,467
Footwear	6,735	6,325
Furniture	365	—
Capital expenditures:		
Apparel	\$ 12,266	\$ 11,198
Retail	19,364	27,146
Footwear	9,876	7,442
Furniture	<u>1,517</u>	<u>—</u>

Sales between business segments, which account for less than 1% of the sales of any one business segment, are considered immaterial and are netted against the sales of the respective segment. Operating profit of the business segment is its sales less all operating expenses. Minority interests in certain subsidiaries are immaterial and have been included in corporate expenses and interest cost.

Identifiable assets of a business segment are those assets that are used by that segment in its operations. Corporate assets consist primarily of cash, marketable securities and marketable investment securities.

Substantially all of the company's sales are made to unaffiliated customers and no one customer accounted for 10% of the consolidated sales. Foreign operations are not material in relation to the consolidated financial position or results of operations.

16. Quarterly Financial Information (Unaudited) — In the opinion of management, the following quarterly information includes all adjustments necessary for a fair presentation:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<u>Fiscal 1980</u>				
Net sales	\$463,789	\$532,143	\$519,217	\$509,158
Gross profit	140,352	157,691	162,763	183,733
Earnings before income taxes	37,665	49,128	54,250	64,692
Net earnings	<u>\$ 19,761</u>	<u>\$ 25,344</u>	<u>\$ 28,251</u>	<u>\$ 33,350</u>
Earnings per share	<u>\$1.37</u>	<u>\$1.76</u>	<u>\$1.98</u>	<u>\$2.24</u>
<u>Fiscal 1979</u>				
Net sales	\$412,651	\$485,964	\$502,200	\$450,643
Gross profit	125,498	144,599	155,678	159,065
Earnings before income taxes	34,699	43,352	52,594	56,224
Net earnings	<u>\$ 17,374</u>	<u>\$ 21,476</u>	<u>\$ 26,136</u>	<u>\$ 27,590</u>
Earnings per share	<u>\$1.20</u>	<u>\$1.47</u>	<u>\$1.80</u>	<u>\$1.90</u>

17. Inflation Accounting (Unaudited) — The Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) have established standards for reporting the effects of inflation. These standards require supplemental disclosures to conventional financial statements prepared in accordance with generally accepted accounting principles. In response to SEC requirements, the company's annual report on Form 10-K contains estimates of certain replacement cost information. Disclosure of certain information in accordance with FASB Statement 33, "Financial Reporting and Changing Prices," is shown below.

Rapidly changing prices have had an increased impact on the company in recent years. Inflation affects the company in many ways — particularly the costs of acquiring inventory and the costs of replacing property, plant and equipment. The company's ability to react to inflation depends on, among other things, its ability to compensate for cost increases with increased sales prices, the extent to which productivity can be increased and its method of financing the enterprise.

FASB Statement 33 requires estimated adjustments necessary to reflect transactions in the company's financial statements with dollars of equal purchasing power (constant dollar estimates) determined by the Consumer Price Index for All Urban Consumers. Cost of sales and depreciation are adjusted to a common unit of measure. No other items of revenue or expense in the summary consolidated statement of earnings are adjusted. Depreciation adjustments are computed with the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

Notes to Consolidated Financial Statements

(continued)

All comparisons between the conventional financial statements and required supplemental disclosures must be viewed with caution because of the many assumptions inherent in constant dollar estimates. The adjustment to cost of sales reflect a charge for inflation for the period inventory was held prior to sale. The adjustment to depreciation reflects a charge for inflation from the period in which plant and equipment were purchased to the present. The provision for income taxes remains unchanged because income tax laws do not allow the company to claim tax deductions related to these adjustments. These disclosures highlight an important view of the company's fiscal 1980 effective tax rate: 48.1% as presented in the conventional financial statements versus 72.0% as adjusted for the effects of inflation.

The summary consolidated statement of earnings adjusted for inflation for the year ended February 29, 1980 is as follows:

	As reported in the conventional financial statements	Average 1980 constant dollars
Net sales and other income	<u>\$2,048,267</u>	<u>\$2,048,267</u>
Cost of sales (a)	1,373,258	1,430,020
Selling, general and administrative expenses (a)	435,568	435,568
Depreciation expense	24,390	35,817
Interest expense	9,316	9,316
Income taxes	<u>99,029</u>	<u>99,029</u>
	<u>1,941,561</u>	<u>2,009,750</u>
Net earnings	<u>\$ 106,706</u>	<u>\$ 38,517</u>
Earnings per share	<u>\$7.35</u>	<u>\$2.65</u>
Effective income tax rate	<u>48.1%</u>	<u>72.0%</u>
Loss from decline in purchasing power of net monetary assets		<u>\$ 1,253</u>

(a) Excludes depreciation and amortization expense.

The following five-year comparison shows selected historical financial data adjusted to average dollars as measured by the required Consumer Price Index for All Urban Consumers for fiscal 1980:

	Fiscal Years Ended				
	1980	1979	1978	1977	1976
Net sales and other income	\$2,048,267	\$2,096,344	\$2,039,202	\$2,045,179	\$1,964,046
Cash dividends declared per common share	\$2.35	\$2.35	\$2.24	\$2.10	\$2.01
Market price — end of year	\$35.73	\$39.98	\$46.31	\$50.84	\$59.20
Average consumer price index	222.3	198.4	183.5	172.0	162.9

18. Replacement Cost Data (Unaudited) — The Securities and Exchange Commission requires many large companies to report certain information relating to replacement cost of inventories and fixed assets, and the impact of these costs upon depreciation and cost of sales.

In the normal course of business, the company has been able and will continue to replace its productive capacity in an orderly manner. Historically, the company has been able to compensate for cost increases through increases in productivity and selling prices in order to maintain an approximately constant gross profit percentage of sales.

Due to inflation and the cost of technological improvements, the replacement of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets which were being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets.

The company's annual report on Form 10-K (a copy of which is available upon request) will contain more specific information with respect to replacement cost of inventories and productive capacity (buildings, machinery and equipment), and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for fiscal 1980 and fiscal 1979.

PEAT, MARWICK, MITCHELL & CO.

Certified Public Accountants

720 Olive Street

St. Louis, Missouri 63101

THE BOARD OF DIRECTORS

AND STOCKHOLDERS

INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 29, 1980 and February 28, 1979 and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 29, 1980 and February 28, 1979 and the results of their operations, and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

April 11, 1980

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)

	FISCAL YEARS ENDED				
	1980	1979	1978	1977	1976
FOR THE YEAR					
Summary of operations:					
Net sales	\$2,024,307	\$1,851,458	\$1,666,657	\$1,566,432	\$1,424,252
Cost of sales	1,379,768	1,266,618	1,158,387	1,094,826	992,754
Interest expense	9,316	9,570	8,398	7,766	6,901
Earnings before income taxes.	205,735	186,869	161,579	149,392	135,785
As a percent of sales	10.2%	10.1%	9.7%	9.5%	9.5%
Income taxes	99,029	94,293	79,745	73,122	67,212
Net earnings	106,706	92,576	81,834	76,270	68,573
As a percent of sales	5.3%	5.0%	4.9%	4.9%	4.8%
Earnings applicable to common stock	106,719	92,576	81,834	75,541	67,799
Per share of common stock:					
Fully diluted earnings	\$7.35	\$6.37	\$5.70	\$5.32	\$4.81
Dividends	\$2.35	\$2.10	\$1.85	\$1.62½	\$1.47½
Average common and common equivalent shares outstanding (in thousands)					
	14,527	14,535	14,365	14,324	14,268
Cash dividends paid:					
On common stock	\$33,563	\$30,425	\$26,490	\$21,998	\$18,150
On preferred stock	\$ —	\$ —	\$ 1	\$ 729	\$ 791
AT YEAR END					
Working capital	\$ 606,833	\$ 537,878	\$532,361	\$481,156	\$437,736
Property, plant and equipment, net	309,636	207,641	180,591	174,170	156,047
Capital expenditures:					
Company owned property	41,849	30,173	19,980	26,006	21,698
Capitalized leased property ...	4,759	16,427	9,227	10,208	3,486
Total assets	1,239,036	1,003,075	899,778	819,360	755,387
Long-term debt	60,225	41,236	42,825	46,138	47,443
Obligations under capital leases	80,718	68,146	58,325	54,056	46,069
Stockholders' equity	836,313	684,164	621,512	565,178	508,328
Book value per common share .	\$52.21	\$47.56	\$43.34	\$39.72	\$36.00

The above figures have been restated to include pooled companies for years prior to their acquisition and for the retroactive restatement of capital leases.

1980 Compared to 1979

Net sales increased by 9.3% over fiscal 1979 with each major operating group reporting sales gains.

Other income, net rose by \$4,457,000 or 22.9%, due principally to an increase in interest income, as a result of higher interest rates, and a rise in service fee income.

Cost of sales increased by 8.9% and, as a percent of sales, was 68.2% as compared to 68.4% last year.

Selling, general and administrative expenses rose by 11.2% and were 22.4% of sales, as compared to 22.0% in fiscal 1979. The increase from last year and as a percent of sales, was principally due to the additional costs of doing business at the retail level.

Interest expense decreased by \$254,000 or 2.7% due to a lower level of short-term borrowings during the year.

Income taxes rose by 5.0% and were 48.1% of pre-tax earnings as compared to 50.5% last year.

Net earnings increased by 15.3% reflecting the improvement in operating results and the decrease in the Federal corporate statutory tax rate.

Earnings per share increased by 15.4% compared to an increase in net earnings of 15.3%. Average shares outstanding were reduced by treasury shares purchased late in fiscal 1979 and throughout fiscal 1980, and were increased by the issuance of preferred stock which was included as common stock equivalents in average shares outstanding from the date of issuance. The effect of the common stock equivalents of the preferred stock, which was in the average for one month, is immaterial.

1979 Compared to 1978

Net sales for fiscal 1979 rose by 11.1% reflecting the strong showing of the Apparel Manufacturing and General Retail Merchandising Groups. In the Footwear Manufacturing and Retailing Group, retail sales continued strong throughout the year; however, in the manufacturing operation, only modest sales gains were recorded.

The increase in other income, net of \$2,878,000 or 17.3% was due, principally, to interest income on marketable security investments.

Cost of sales, as a percent of sales, was 68.4% and 69.5% in fiscal 1979 and fiscal 1978, respectively. In fiscal 1979, the Footwear group had improved gross profit margins as a result of a strengthening in the domestic footwear market, the elimination of the women's shoe manufacturing operation at Florsheim, and the sale of the juvenile shoe manufacturing business in Canada.

Selling, general and administrative expenses were 22.0% of sales as compared to 21.3% last year, an increase of 14.9%. The increase for fiscal 1979, as a percent of sales, and the percentage increase over the prior year after accounting for the sales increase, were principally caused by the production curtailment of jeans during the year, and the increased cost of doing business in the General Retail Merchandising Group.

Interest expense rose by \$1,172,000 or 14.0% due to increased domestic and foreign short-term borrowings during the year and interest on capitalized leases.

Income taxes increased by 18.2% due to a slightly higher effective tax rate of 50.5% as compared to 49.4% in fiscal 1978.

Net earnings increased by 13.1% reflecting the improvement in the Footwear Group as noted in the cost of sales analysis.

Earnings per share increased by 11.8%. The percentage increase, which is less than the net earnings increase, is the result of a larger number of shares outstanding in fiscal 1979 over fiscal 1978. Substantially all the increase in average shares is attributable to an acquisition during the year. The treasury stock program, which began late in fiscal 1979, did not affect earnings per share.

Board of Directors



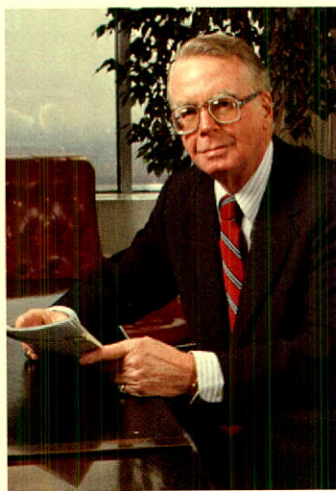
Nathan S. Ancell



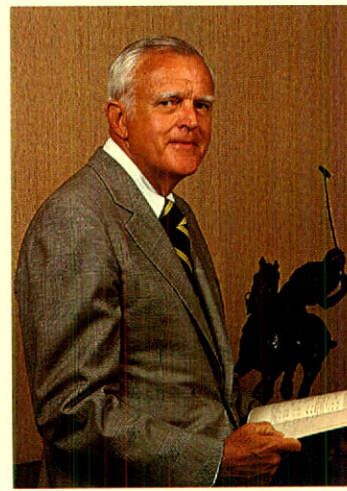
Ronald L. Aylward



Stanley M. Cohen



William L. Edwards, Jr.



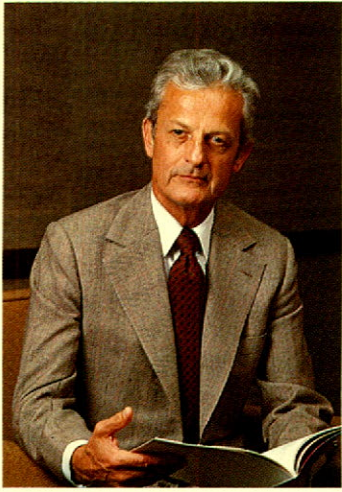
Edwin S. Jones



Norfleet H. Rand



John K. Riedy



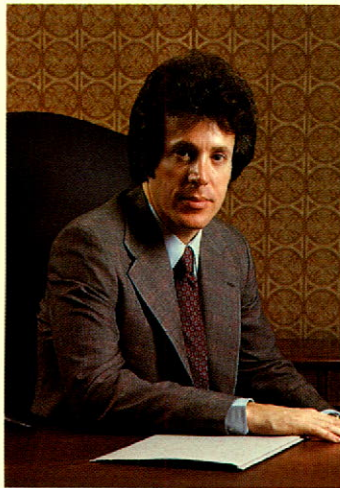
Zane E. Barnes



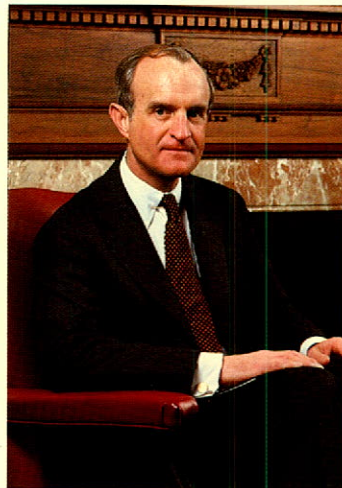
Maurice R. Chambers



Donald E. Lasater



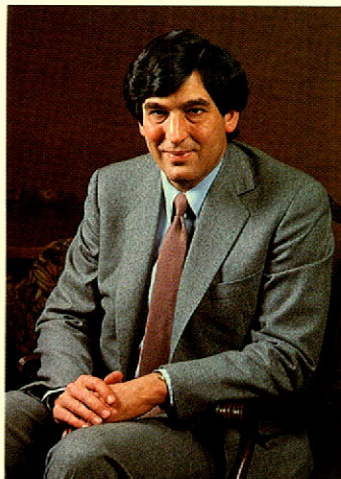
Jonathan P. Myers



Thomas H. O'Leary



Charles J. Rothschild, Jr.



Harvey Saligman

Directors, Officers and the Operating Board

Board of Directors

NATHAN S. ANCELL
Chairman of the Board,
Ethan Allen Inc.

RONALD L. AYLWARD
Vice President and General
Counsel of the Company

ZANE E. BARNES
President and Chief
Executive Officer,
Southwestern Bell Telephone
Company

MAURICE R. CHAMBERS
Chairman of the Executive
Committee of the Company

STANLEY M. COHEN
President, Central Hardware
Company

WILLIAM L. EDWARDS, JR.
Chairman of the Board and
Chief Executive Officer of
the Company

EDWIN S. JONES
Chairman of the Executive
Committee, First Union
Bancorporation and First
National Bank in St. Louis

DONALD E. LASATER
Chairman of the Board and
Chief Executive Officer,
Mercantile Bancorporation,
Inc. and Mercantile Trust
Company National
Association

JONATHAN P. MYERS
Chairman of the Board,
Londontown Corporation

THOMAS H. O'LEARY
President, Missouri Pacific
Corporation

NORFLEET H. RAND
Retired

JOHN K. RIEDY
President and Chief
Operating Officer of the
Company

CHARLES J. ROTHSCHILD, JR.
President, Campus Sweater
& Sportswear Company

HARVEY SALIGMAN
President, Queen Casuals,
Inc.

Executive Committee

Maurice R. Chambers,
Chairman
Ronald L. Aylward
William L. Edwards, Jr.
Norfleet H. Rand
John K. Riedy

Audit Committee

Donald E. Lasater, Chairman
Zane E. Barnes
Edwin S. Jones
Thomas H. O'Leary

Corporate Officers

WILLIAM L. EDWARDS, JR.
Chairman of the Board and
Chief Executive Officer

JOHN K. RIEDY
President and Chief
Operating Officer

STANLEY M. COHEN
Vice President

RONALD L. AYLWARD
Vice President and General
Counsel

GERALD B. HIRSCH
Vice President

JONATHAN P. MYERS
Vice President

J. CARL POWERS
Vice President

CHARLES J. ROTHSCHILD, JR.
Vice President

HARVEY SALIGMAN
Vice President

NATHAN S. ANCELL
Vice President

DUANE A. PATTERSON
Secretary

ROBERT T. HENSLEY, JR.
Treasurer

STANLEY F. HUCK
Controller

KEITH E. MATTERN
Assistant Secretary

JAMES K. PENDLETON
Assistant Secretary

WILLIAM R. WITHROW
Assistant Treasurer

RUSSELL L. BAUMANN
Assistant Controller

WILFRED G. MORICE
Assistant Controller —
Manager of Internal Auditing

Executive Compensation and Stock Option Committee

Maurice R. Chambers,
Chairman
Zane E. Barnes
Edwin S. Jones
Donald E. Lasater
Thomas H. O'Leary
Norfleet H. Rand

Operating Board

WILLIAM L. EDWARDS, JR.
Chairman of the Board and
Chief Executive Officer of
the Company

JOHN K. RIEDY
President and Chief
Operating Officer of the
Company

NATHAN S. ANCELL
Chairman of the Board,
Ethan Allen Inc.

RONALD L. AYLWARD
Vice President and General
Counsel of the Company

EDWIN J. BAUM
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Company, Inc.

LIONEL BAXTER
President, Big Yank
Corporation

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President, Central Hardware
Company

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Chairman of the Board,
Cowden Manufacturing
Company

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President, Sidney Gould
Co., Ltd.

BARRY S. FINE
President, Fine's Men's
Shops, Incorporated and
Standard Sportswear

JEAN S. GOODSON
President, International Hat
Company

GERALD B. HIRSCH
President, P. N. Hirsch &
Company

WILLIAM B. KLINSKY
President, Alberts, Inc.

STANLEY MATZKIN
President, Devon Apparel

JONATHAN P. MYERS
Chairman of the Board,
Londontown Corporation

MYRON C. PETERSON
Chairman of the Board and
President, Sky City Stores,
Inc.

J. CARL POWERS
President, International
Shoe Company

HARVEY ROTHENBERG
Chairman of the Board,
Stuffed Shirt/Stuffed Jeans,
Inc.

CHARLES J. ROTHSCHILD, JR.
President, Campus Sweater
& Sportswear Company

HARVEY SALIGMAN
President, Queen Casuals,
Inc.

ARTHUR SIBLEY
President, College-Town

JOHN WEIL
President, Eagle Family
Discount Stores, Inc.

Apparel Manufacturing Group

BIG YANK CORPORATION
New York, New York

THE BILTWELL COMPANY, INC.
St. Louis, Missouri

CAMPUS SWEATER & SPORTSWEAR COMPANY
Paramus, New Jersey

COLLEGE-TOWN
Braintree, Massachusetts

COWDEN MANUFACTURING COMPANY
Lexington, Kentucky

DEVON APPAREL
Philadelphia, Pennsylvania

INTERNATIONAL HAT COMPANY
St. Louis, Missouri

LONDONTOWN CORPORATION
Eldersburg, Maryland

QUEEN CASUALS, INC.
Philadelphia, Pennsylvania

SIDNEY GOULD CO., LTD.
Garden City Park, New York

STUFFED SHIRT/STUFFED JEANS, INC.
New York, New York

General Retail Merchandising Group

ALBERTS, INC.
Detroit, Michigan

CENTRAL HARDWARE COMPANY
St. Louis, Missouri

EAGLE FAMILY DISCOUNT STORES, INC.
Miami, Florida

FINE'S MEN'S SHOPS, INCORPORATED
Norfolk, Virginia

GOLDE'S DEPARTMENT STORES, INC.
St. Louis, Missouri

P. N. HIRSCH & COMPANY
St. Louis, Missouri

SKY CITY STORES, INC.
Asheville, North Carolina

STANDARD SPORTSWEAR
Pittsburgh, Pennsylvania

UNITED SHIRT DISTRIBUTORS, INC.
Detroit, Michigan

Footwear Manufacturing and Retailing Group

THE FLORSHEIM SHOE COMPANY
Chicago, Illinois

INTERNATIONAL SHOE COMPANY
St. Louis, Missouri

SENACK SHOES, INC.
St. Louis, Missouri

Furniture and Home Furnishings Group

ETHAN ALLEN INC.
Danbury, Connecticut

Transfer Agents

(Common and Preferred Stock)

Manufacturers Hanover Trust Company
New York, New York
(212) 623-3157

Mercantile Trust Company National Association
St. Louis, Missouri
(314) 425-2755

Registrars

(Common and Preferred Stock)

Morgan Guaranty Trust Company
New York, New York
(212) 483-2323

St. Louis Union Trust Company
St. Louis, Missouri
(314) 231-9300

Dividend Disbursing Agent

(Common and Preferred Stock)

Mercantile Trust Company National Association
St. Louis, Missouri
(314) 425-2755

Independent Accountants

Peat, Marwick, Mitchell & Co.
St. Louis, Missouri 63101

Exchange Listings

Common and Preferred shares are listed on the New York Stock Exchange. Common shares are also listed on the Midwest Stock Exchange.
(Trading symbol: ISS)

Corporate Offices

Ten Broadway
St. Louis, Missouri 63102
(314) 231-1100

Mailing Address:
Post Office Box 8777
St. Louis, Missouri 63102

